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SUBJECT: FEDERAL ENERGY REGULATORY COMMISSION CHAIRMAN'S  
MEETINGS WITH QATAR'S ENERGY LEADERS

REF: DOHA 83

Classified By: CDA Michael A. Ratney, reasons 1.4 (b) and (d).

¶1. (U) During a February 4-8 visit to Qatar focused on broadening knowledge about the liquefied natural gas (LNG) industry and sources of supply for the U.S. market, Federal Energy Regulatory Commission (FERC) Chairman Joseph Kelliher, Director of Energy Projects Mark Robinson, and Director of External Affairs Andy Black toured Ras Laffan Industrial City and met with high-level energy sector officials from the GOQ and private sector. Their meetings included the Minister of Energy and Industry Abdullah Al-Attiyah; Qatar Petroleum (QP) Director of Oil and Gas Ventures Sa'ad Al-Kaabi; Economic Advisor to the Amir, Dr. Ibrahim Al-Ibrahim; QatarGas CEO Faisal Al-Suwaidi; RasGas Managing Director Hamad Al-Mohannadi; President and General Manager of ExxonMobil Qatar Alex Dodds; and President and General Manager of ConocoPhillips Qatar Mike Stice. Chairman Kelliher also spoke to a gathering of energy professionals about FERC's role in the United States and spoke about U.S. energy policy with students at Georgetown's branch campus at Education City.

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Qatar Committed to Golden Pass Investment, U.S. Market  
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¶2. (C) Al-Attiyah thanked the chairman for the FERC's key role in approving QP's 2 billion USD investment in the Golden Pass LNG receiving terminal on the Texas-Louisiana border. Al-Attiyah noted that he visited the site in June 2007 and is committed to Qatar's investment in the U.S. He expressed his satisfaction with the pace of ongoing construction. Al-Attiyah noted that QP has great partners for the project in ExxonMobil and ConocoPhillips. He said they are now conducting a feasibility study on building a power plant at the site that would tap excess heat to supply the Texas market (Note: QP holds a 70 percent equity in Golden Pass, while ExxonMobil has 17 percent and ConocoPhillips 13 percent). Al-Suwaidi commented that Qatar's new Q-Max LNG transport tankers (the first of which is scheduled for delivery from South Korea in July) are a "sign of our commitment to the U.S. market," as profitably supplying North America requires a new, larger kind of super-tanker (Note: The Q-Max has a capacity about twice the size of current LNG tankers). Reiterating a concern expressed to Energy Secretary Bodman two weeks earlier (see reftel), Al-Suwaidi

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underscored that increased Suez Canal tolls are forcing QatarGas to look at routes around Africa to reach North America.

¶3. (C) All Qatari interlocutors mentioned that they closely follow U.S. politics for possible effects on Qatar's investments in the U.S. QatarGas CEO Al-Suwaidi said energy officials watch Congressional actions with great interest and

concern. Separately, the Amir's advisor, Dr. Ibrahim, cautioned that he didn't want to interfere but sometimes Congress comes up with "crazy ideas" about how natural gas markets work. He commented that everything went fine with the Committee on Foreign Investment in the United States (CFIUS) when Qatar received approval for its Golden Pass investment, and observed that Qatar believes there is room for an alliance on LNG, "as long as the U.S. maintains the proper environment for investment." Separately, RasGas Marketing Executive Khalid Al-Kuwari offered assurances that Qatar will continue to invest billions of dollars in the U.S. energy sector and mentioned that QP's new international investment arm, Qatar Petroleum International (QPI), is looking at investment opportunities in the United States and elsewhere in gas storage projects.

¶4. (C) Energy Minister Al-Attiyah, who studied in Michigan, spent much of the meeting recounting his love of America, particularly higher education. He proclaimed himself a "big fan" of U.S. universities and said he is concerned that Department of Homeland Security "fanatics" are negatively affecting the important educational links between Qatar and the U.S. He expressed concern that Qatari students are reportedly choosing to attend universities in Canada, the UK, and Australia instead of in America. On the positive side, Al-Attiyah noted that senior QP officials were in the past "stopped in Houston for six hours" upon arrival in the country. He credited Houston's Mayor White for making dramatic improvements in airport efficiency after the mayor met with Al-Attiyah and other Qatari officials.

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Potential Tax Troubles  
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¶5. (SBU) Dr. Ibrahim briefly noted to the delegation that  
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there is no U.S.-Qatar tax treaty and as a result there is some uncertainty over how Golden Pass profits will be taxed. In a separate meeting at ConocoPhillips' offices, Stice briefed the FERC delegation on the situation. QP and its U.S. private sector partners (ConocoPhillips and ExxonMobil) believe that "the whole chain of profit" from the Golden Pass project might be taxable under U.S. law. QP is amenable to paying U.S. taxes on the terminal and associated pipelines, which are physically in the U.S., but does not want to pay taxes on shipping. There are three possible solutions, according to Stice. First, the U.S. and Qatar could sign a bilateral tax treaty. An attempt was made to finalize one a few years ago, but it was never signed for reasons that are now unclear. Stice noted that the Amir could issue a decree stipulating that the GOQ will not tax U.S. ships in the hope of benefiting from IRS reciprocity, but the Qataris view such a unilateral move as "insulting." Second, Qatar could flag its ships in countries where tax treaties exist, but the U.S. companies have recommended against this as it looks like a shell game. Finally, QP could change the terms and conditions of its contracts with its U.S. partners to adjust the rate of return on Golden Pass so that the profits are transparent but taxed in ways that are less onerous to QP. Stice believes the third option is the most likely, but opined that Qatari officials would welcome any USG efforts to work out a bilateral tax agreement that would ameliorate the situation.

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Safety is Priority Number One  
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¶6. (C) Remarking that "we've never heard of an LNG tanker accident in 40 years," Al-Attiyah said that safety is very important to QP and all of its projects. He described some U.S. domestic concerns (particularly in the Northeast) about the dangers of LNG terminals as overblown. Al-Suwaidi explained how safety is an investment; QatarGas does not want

to lose even one day of production for safety lapses, as it would cost the firm a huge amount of money. Stice added that the LNG facilities at Ras Laffan have an incredible safety record with a level of performance unmatched by major capital projects elsewhere in the world. Ahmed Al-Khulaifi, QatarGas's Chief Operating Officer for Commercial and Shipping, said they are looking at using buoy-based supply systems with ships as storage "to avoid NIMBY (not in my backyard) concerns," although these methods are costly and not very efficient.

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Qatar's LNG Marketing Strategy Based  
on Diversity of Customers  
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17. (C) Al-Attiyah boasted that Qatar is the world's largest LNG exporter and a reliable supplier, noting that in February 2007 QP completed 10 years of delivering supplies to Japan with no defaults on contracts. Moreover, Qatar's excess capacity allowed it to play a key role in sending additional supplies to Japan after a 2007 earthquake to help that country cope with energy shortages from nuclear power disruptions. Qatar, he said, aspires to supply diversified export markets and plans to send about one-third of its gas to Asia, one-third to Europe, and one-third to North America. Al-Attiyah noted, however, the increasing stresses of fulfilling demand for LNG in Asia. China is "begging" Qatar for more gas, as it faces 500 MW in additional power needs every week. India currently receives 7.5 million tons per annum (MTA) of LNG from Qatar but wants another 8 MTA and is hoping to build 4 new LNG receiving terminals in the state of Kerala. Separately, Al-Suwaidi said China is "coming around" to the realization that it will need to pay market prices for gas and is also making large capital investments in upstream production projects around the world. Al-Suwaidi added that China and India are attractive export markets, but Qatar doesn't want to "put all its eggs in one basket."

18. (C) Dr. Ibrahim reviewed for the delegation the history of Qatar's investment in the LNG industry. Noting that it took time to convince many GOQ leaders that the North Field could be developed both for domestic gas consumption and LNG export, he explained that LNG is a must for Qatar since "in static terms we are not close to any major market." Al-Attiyah added that QP has acquired rights to offload spot sales of LNG at the Sabine and Elba Island terminals and this will provide good excess capacity for Qatar to supply the U.S. market during times of high demand. Beyond these terminals, QP is interested in acquiring rights elsewhere so that it can give a diverse supply across the U.S. market. From Qatar's geographical position, it can actually reach ports on the U.S. Pacific coast in only one day longer than

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its trips to the Gulf of Mexico. Al-Suwaidi commented that increasing political risks for cross-border pipelines around the world continue to make LNG an attractive option for gas importers. Separately, Dodds noted that very few countries can compete with Qatar's location and prices. Ras Laffan, continued Dodds, provides Qatar "huge economies of scale" and synergies across the LNG value chain. For example, one well in Qatar's North Field produces 10 to 15 times the amount of gas that can be extracted from a well in the Gulf of Mexico or North Sea.

19. (C) RasGas CEO Al-Mohannadi opined that the gas market is becoming more global given the increase in receiving terminals and is ultimately becoming more like oil, with the flexibility to send shipments to different locations. However, the standard 20-25 year LNG contracts still mean that the bulk of production is committed to specific locations and customers. He added that RasGas is concerned about the business risks associated with a possible U.S. or global recession, since LNG is a commodity dependent on healthy economies. Al-Mohannadi noted that all present and

future RasGas supplies are "sold out" based on existing contracts. Al-Kuwari added that while current production projections are locked in at 100 percent, debottlenecking operations could produce higher than expected gas supplies, which would allow RasGas to sell spot shipments.

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War for Talent Affecting Production Timelines  
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¶10. (C) Despite Qatar's impressive track record, all interlocutors agreed that the global search for talent is one of the key challenges faced by QP and U.S. companies. QatarGas has 54 nationalities working throughout its organization and sends recruitment teams around the world in search of talent. The multinational work force also presents safety challenges, as managers must ensure that workers can communicate effectively with each other, particularly when they have a safety concern. (Note: Some press reports and industry analyses have indicated that the start dates of production over the next two years for new QatarGas and RasGas LNG trains may slip by several months due to shortages of skilled workers.)

¶11. (U) The FERC delegation cleared this cable.

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